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DIRECTORATE OF
INTELLIGENCE

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WEEKLY SUMMARY

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CONTENTS

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Page

FAR EAST

Indochina: Vietnam—And Then There Were Seven	1
Cambodia: The High Costs of War	4
Laos: The Offensive Continues	5
Japan: Sato's Last Shuffle	6
More Recrimination Than Rejoicing in Peking	7
Singapore's Economy Booming Despite British Withdrawal	8
Indonesian Government Wins Election	9
Fits and Starts in the USSR's Japan Policy	10

EUROPE

New Polish Plan Recognizes the Consumer	11
Yugoslavia: New Government Assembling in the Wings	12
Downturn in British Economy During First Quarter	13
The Netherlands: New Dutch Government Takes Office	14

MIDDLE EAST - AFRICA

Palestinians Meet Again...and Again...	16
Iraq: Baathi Stew Bubbling Again	17
Uganda: Army Problems Trouble Amin Government	18
Iran Prepares to Fill a Military Vacuum in the Persian Gulf	19
South Africa: Political Liberals Hope to Widen Constituency	21

WESTERN HEMISPHERE

Developments in Chile	22
Dominican Republic: A Plotter Is Exiled	23

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NOTES: Congo (B); Andean Group

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SECRET

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Indochina: *Vietnam—And Then There Were Seven*

The Viet Cong's Madame Binh last week issued yet another Communist proposal for a Vietnam settlement. Her seven-point statement softens the Communist position on POW release but retains and amplifies a very tough line on US disengagement from the war. In addition, it clothes Hanoi's political demands in language that is both less precise and more attractive than earlier formulations. The whole tone of the statement is conciliatory, and Communist spokesmen have carefully left the impression that there is a good deal of room in it for negotiation.

The seven points state that if the US sets a "terminal date for the withdrawal from South Vietnam in 1971 of the totality of US forces" and those of its allies, the Communists and the allies will immediately work out arrangements to ensure the safety of the withdrawing troops and to release the soldiers and civilians "of all parties" held in captivity. Prisoner release, the statement says, will begin and end on the same dates as the US withdrawal.

The formula on prisoner release is new; up to now the Communists have said only that the POW issue will be "discussed" when the US sets a withdrawal date. By including for the first time civilian as well as military prisoners, however, the Communists are opening the whole thorny problem of the Communist civilian cadre who are now held by Saigon. More importantly, despite all the conciliatory language, the demand that US military disengagement be total—including non-combatants, equipment, and bases as well as combat troops—is as firm as ever.

Political Generalities

On the political side, the Communists have reverted to vague generalities reminiscent of their ten points of 1969; more recently, in the eight points issued last September, they have been

more specific in their demands. The eight points contained an elaborate scenario involving the ousting of the present Saigon regime, the formation of a new non-Communist "administration," and the establishment of a temporary coalition government on the basis of negotiations between this "administration" and the Communists.

The scenario is the same in the new statement except that the demand for a coalition government has been replaced with a fuzzier call for a broad "government of national concord." Furthermore, only President Thieu is named in the seven points as an unacceptable leader in Hanoi's eyes; earlier statements had included Vice President Ky and Prime Minister Khiem as well.

The seven points do refer to earlier demands that the "government of national concord" have "three segments," including what Hanoi considers right-thinking individuals from the present Saigon government and from the Communists' provisional government as well as "peace-loving" people who presently belong to neither. Even this proposal is less specific than before, however, and the Communists seem to be trying to leave the impression that the form of government, and perhaps its substance as well, is negotiable.

Poking the Ant Hill, or Something More?

There are some things that can be said with reasonable certainty about the purpose of the new proposal. It is fairly clear, for instance, that Hanoi thought a more forthcoming position on POWs, coupled with a restatement of the standard Communist demands for US military disengagement from Vietnam, would cause a good deal of difficulty for the US Government. The broader, less polemically phrased reformulation of Hanoi's political proposals no doubt was composed in hopes of encouraging antiwar sentiment in both South Vietnam and the US.

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More specifically, the seven points try to make the Communists appear more reasonable and conciliatory just at a time when election maneuvering in South Vietnam is becoming more intense. Although the Communists certainly do not intend to participate overtly in the elections, they may calculate that by cultivating a less intransigent image they can help antigovernment, antiwar candidates in both the legislative and the presidential elections.

But there are signs that Hanoi is looking for something more. The renewed vagueness of the political proposals, the very comprehensiveness of the changes they contain, and perhaps most significantly the fact that Le Duc Tho of the North Vietnamese party politburo is back in Paris after an absence of over a year, all suggest that the seven points were framed so as to interest the US in exploring them further. Hanoi presumably would be most eager to ascertain whether Washington is any less adamant in its refusal to talk with Hanoi about a political settlement in South Vietnam. The Communists may consider this something of a long shot, but there do seem to be hints that Hanoi has something more in mind than simply causing trouble for the administrations in Saigon and Washington.

Prompt Peking Endorsement

Peking quickly took steps to dramatize its close support of Hanoi's latest move in Paris. In an editorial in the authoritative *People's Daily* on 3 July, the Chinese fully endorsed the Vietnamese Communist seven-point proposal as the "correct way for the peaceful settlement of the Vietnam question." Peking's prompt reaction to the Vietnamese proposal is unprecedented and suggests that Hanoi coordinated its new move with Peking. The Chinese waited five months before acknowledging the ten-point plan advanced by the Vietnamese in May 1969 and delayed for three months their endorsement of the Communists' eight-point plan of September 1970.

Also last weekend, the Chinese signed the second supplemental military aid agreement of the year with the Vietnamese: under the agreement Peking will supply unspecified equipment and materials [redacted] The normal military aid pact for 1971 was signed last October, and the first supplementary agreement was reached in February. The signing of the latest protocol was accompanied by a warm, high-level reception in Peking for the North Vietnamese military aid delegation. ^{25x1}

Moving Back from Cambodia?

Bad weather restricted military activity this week in South Vietnam's northern provinces, but there were signs that the Communists may be sending some military units back into the southern part of South Vietnam from Cambodia.

Although there have been no recent movements of elements of the Communists' 5th, 7th, and 9th divisions back into northern and western Military Region (MR) 3, there has been a spate of reports of the cross-border movement of small groups into the delta provinces of MR 4. Despite the blocking of many of the enemy's primary infiltration corridors by South Vietnamese forces, prisoner and defector reports have claimed that many company-sized or smaller enemy units have managed to slip across the border and into base camps within South Vietnam. Official figures place the total number of men who have moved into the U Minh Forest region in recent months at nearly 2,200, and others have undoubtedly moved undetected into the northern delta.

Whether these recent, but fairly small, movements of men back into South Vietnam will be followed by larger numbers of troops remains to be seen. They could merely be part of an enemy effort to strengthen weakened forces in the southern part of South Vietnam. But the Communists may be planning to intensify their war effort in the year ahead, and these moves could be in preparation for offensive operations beginning

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this fall when the rains cease in the southern half of the country.

~~Local Preparations~~

Recent reports indicate the Viet Cong are working hard to strengthen their local cadre network in South Vietnam's two southern military regions, perhaps with a view toward supporting a more ambitious military effort in the coming year. Resolution 10, issued by the Communists' southern command (COSVN) earlier this year, concentrated on improving the political arm of the Viet Cong in areas that now are under government control. The resolution directed that more legal cadre—agents with official government documentation—must be moved into these areas to live among the people and persuade them to oppose the government.

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In addition to increasing the number of legal agents, the Viet Cong are closing out some of their ineffective administrative units and moving cadre to areas where they can operate more successfully. A province-level committee in Bien Hoa Province northeast of Saigon, for example, was deactivated in late April and its cadre reassigned to understaffed units in neighboring provinces and districts. In the delta, the Communists have been shoring up their local structure by forming units that can monitor the activities of several village administrations instead of relying on separate organizations in each.

The Communists also are attempting to improve cadre performance by reassigning high-level cadre to lower level positions.

MRs 3 and 4, district-level cadre have been sent down to village committees and party chapters to bolster cadre strength and improve local operations.

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The enemy's current emphasis on strengthening the cadre network may be intended only to offset losses suffered at the hands of government security authorities and to meet the requirements of carrying on the struggle over the long haul.

~~There is some evidence to suggest, however, that these actions also are intended to support increased military activity later on this year.~~

Ky in the Limelight

Vice President Ky this week became the first presidential contender in South Vietnam to announce the choice of a running mate; southern Catholic politician Truong Vinh Le will join his ticket. Le, a chairman of the National Assembly under the Diem government in the early 1960s, narrowly missed election to the Senate last year as head of a government-backed list composed largely of Catholic moderates. Le's selection probably will gain Ky some support from Catholics and splinter groups that otherwise would go to President Thieu.

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Ky himself apparently remains optimistic that he will be on the ballot.

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under the PL-480 program be expanded to include rice.

The black-market value of the riel has also depreciated drastically. The price of a US dollar in Phnom Penh, which was 250 riels on 21 June, had zoomed to 350 riels in early July. The reasons for this fluctuation were not entirely clear, although the psychological effect of the shortage of rice in the city probably contributed to it. It is also likely that the further flight of capital from the economically important Overseas Chinese business community influenced the riel's plunge.

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To ease the rice crisis, the government has inaugurated daily military-escorted truck convoys to move rice from well-stocked granaries in Battambang Province to Phnom Penh via Route 5. The first such convoy of 62 trucks returned safely to the Cambodian capital on 4 July. ~~The government official in charge of this agricultural shuttle service has indicated that it will take from 80 to 100 truckloads per day to meet Phnom Penh's estimated daily rice requirements of 600 tons. Security arrangements call for a full company of Cambodian soldiers to accompany each convoy, and air cover will be requested. The government apparently will have to move more than 600 tons of rice per day from Battambang in the next few weeks, however, if it hopes to influence farmers' decisions about how much rice to plant for the 1972 crop.~~

Cambodia: The High Costs of War

With monsoon rains helping to cool down Communist military activity throughout most of the country, the Lon Nol government has been left relatively free to wrestle with its mounting economic problems. The situation has just seemed to go from bad to worse, however, as inflation has greatly accelerated and confidence in the currency has continued to plummet.

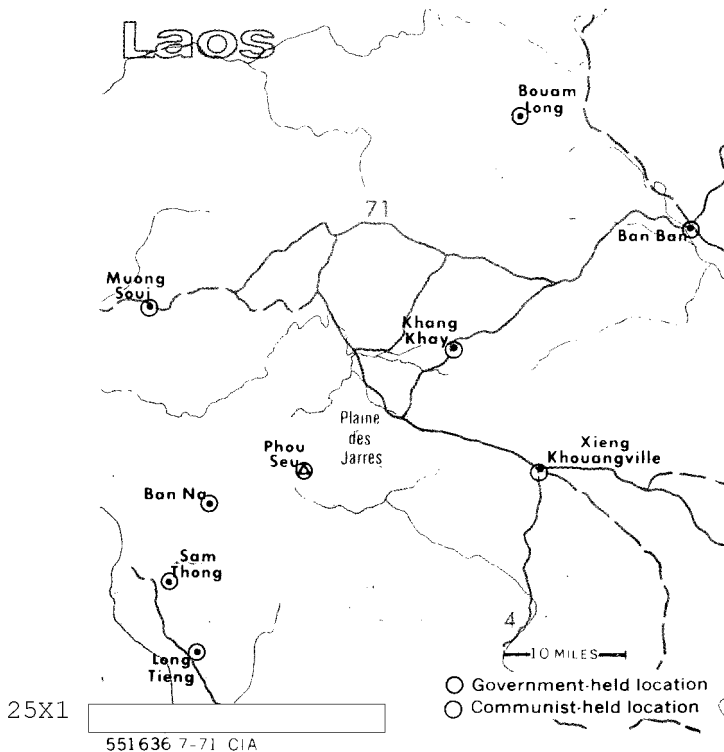
Prices have skyrocketed in Phnom Penh as a result of increased military spending, depleted stocks of imported items, reduced shipments of food into the capital, and early indications of a poor rice crop next season. Beef and pork were selling at more than twice their normal prices, and the open-market price of rice, which had held steady since the war began, more than doubled in a matter of days and has not fallen appreciably despite government rationing at official prices. This week the government asked that assistance

Some recent developments appear to brighten Phnom Penh's prospects for eventually restoring public confidence in the country's war-ravaged economy. Cambodia's leadership has finally accepted in principle all of the sweeping fiscal and monetary reforms recommended by the International Monetary Fund (IMF) in March. The first shipment of PL-480 agricultural commodities has arrived in Phnom Penh, and after extended delays, the US aid program is beginning to gather momentum.

A multilateral exchange support fund proposed by the IMF—if established—would help

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stabilize the exchange market and give Cambodia a powerful instrument against inflation. The Cambodians made their first pitch for foreign-exchange contributions to the fund to US, Australian, South Korean, British, Japanese, and Chinese Nationalist representatives at a meeting in Phnom Penh on 5 July. France, which was not represented at the meeting, apparently will also be asked to participate.

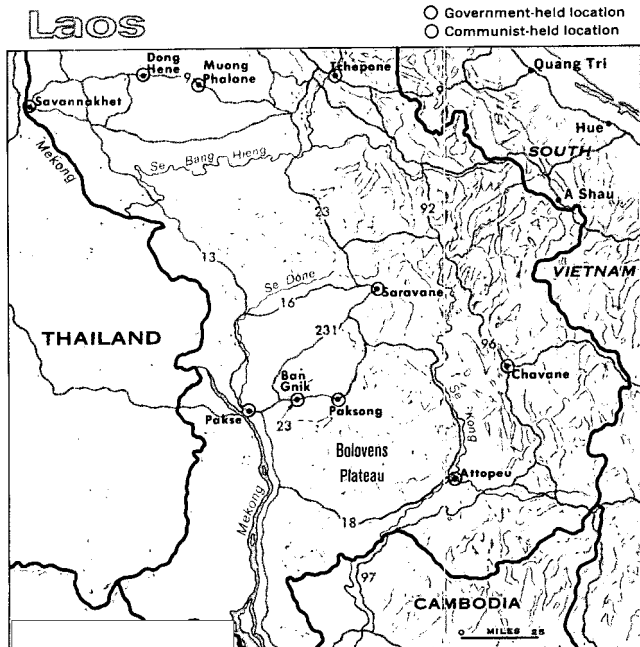
To help condition the people and the obstreperous National Assembly to its proposed program of "economic mobilization"—which consists chiefly of the IMF's suggested reforms—Lon Nol addressed the nation and warned of further belt-

tightening ahead. The assembly responded by refusing to pass the highest budget in the country's history and sent it instead to a special committee for reconsideration.

Laos: The Offensive Continues

The government has retained the military initiative and continues to make substantial progress. On 2 July irregular units seized high-ground positions overlooking the northwestern portion of the Plaine, and smaller units continue search-and-destroy operations over most of the Plaine, except in the northeastern area around Khang Khay. They have encountered little enemy resistance and have located numerous supply caches, while enjoying heavy air support throughout.

Activity has remained relatively light in the rest of the country. In the central panhandle, government clearing operations continued between Dong Hene and Muong Phalane, but



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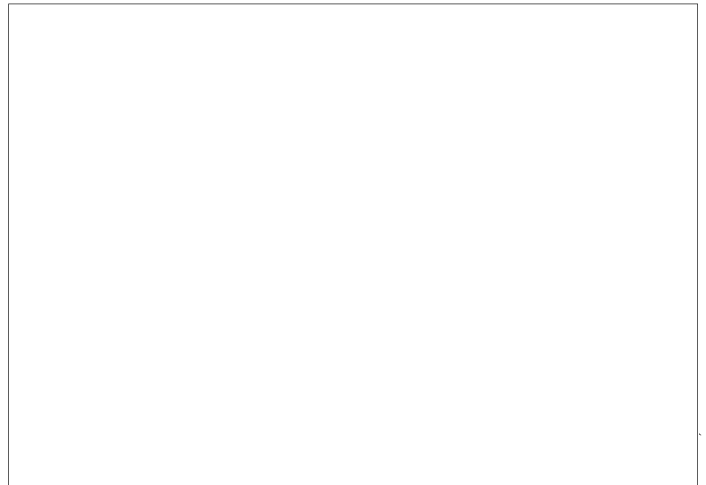
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irregular units attempting to enter Muong Phalane have so far encountered stiff enemy resistance.

ILLEGIB In the Bolovens Plateau area, government forces that raided Ban Gnik, east of Pakse, encountered stiff resistance. This is the first operation in the area since the abortive attempt to retake Pak-song in early June.

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Japan: *Sato's Last Shuffle*

Prime Minister Sato once again demonstrated his unusual adroitness in manipulating top-level appointments to further his goals. In his postelection cabinet reshuffle on 5 July, Sato accommodated the major powers in the party while strengthening the chances of Takeo Fukuda to succeed him as prime minister when his term ends next year.

Sato installed ex - Finance Minister Fukuda as foreign minister, a post that will give him additional experience in international affairs prior to his bid for the prime ministership. Sato also named a top supporter of Fukuda to the key post of Liberal Democratic Party (LDP) secretary general, which largely controls distribution of party funds and appointments.

At the same time, the prime minister did an expert job of accommodating the interests of the other major aspirants for the prime ministership. Kakuei Tanaka, a major contender who resigned last week as secretary general to take responsibility for the LDP's poor showing in the Upper House elections on 27 June was named to the International Trade Ministry. The ambitious Yasuhiro Nakasone left his post in the Defense Agency to become chairman of the LDP's executive board, a move that will enable him to broaden his base of party support for a future assault on the prime

ministership. Nakasone's successor as defense chief, KeiKichi Masuhara, is a long-time defense expert whose more low-key approach to the job should provide less fuel for charges of "reviving Japanese militarism."

In confronting one of the first major tasks facing the new cabinet, that of reducing strains in US-Japan relations caused by economic issues, Sato's new appointees should be more effective than their predecessors. In particular, Fukuda and Tanaka, because of their political clout, are better equipped to bring reluctant bureaucrats into line on economic policy. It is possible, however, that the rivalry between these two prime ministerial aspirants will occasionally result in disagreement on major economic issues.

This is almost certainly the last cabinet reshuffle before Sato steps down. The skillful cabinet shift apparently satisfies demands for "new blood" at the top level; these have been heard particularly from key business leaders alarmed by Communist gains in the recent elections. Sato's careful balancing of party factions in this "lame duck" cabinet will also help considerably in preventing the succession struggle from excessively undercutting his ability to make major policy decisions during his last year as prime minister.

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More Recrimination Than Rejoicing in Peking

The persistence of deep-seated divisions throughout the nation's leadership hierarchy was affirmed by the low-key celebration of the party's 50th anniversary last week. Peking's major pronouncement marking the event failed even to hail the recent progress in reconstituting most of China's provincial-level party committees, a reticence reflecting not only the incompleteness of the tortuous process but also the broad disagreement it has engendered over personnel selection and organization. Further, many of the party organs that have been established are as yet an uneasy amalgam of contrary political tendencies. The historic occasion also did not elicit a full leadership turnout, an extraordinary omission since there were indications that a major meeting of key central and provincial officials had been convened in Peking shortly in advance of the anniversary. The absence of public display further attests to the lack of cohesion within China's ruling politburo and more particularly to the continuing uncertainty surrounding the political futures of four of its ranking members.

The official editorial commemorating the anniversary was largely a panegyric to the correctness of Mao Tse-tung's "line," together with a recounting of the political sins of many of his earlier party opponents. The article, however, was remarkable for its cursory treatment of the achievements of the Cultural Revolution. Although it did severely castigate deposed state chairman Liu Shao-chi—a must on almost any occasion—the editorial, in pointedly ignoring other opponents uncovered by Mao and his radical lieutenants on the Cultural Revolution Group (CRG) during the 1966-68 period, declared flatly that "we will not go into detail about this revolution."

This gingerly approach clearly reflects the mounting political pressure over the past year on the former CRG leaders and on many of their ultraleftist protégés in the provinces; the current

intensity of the factional and personal conflicts generated by this pressure, in fact, casts considerable doubt on the ultimate outcome of the Cultural Revolution, and much of its history may even be in the process of being rewritten. The editorial's condemnation of counterrevolutionaries who created chaos and sought personal power in the revolution, its call for exposing conspirators and renegades still in the party, its praise for the army's role in restoring order, and its heavy criticism of leftist deviations seem aimed at downgrading the radical ideologues who were the prime movers in the Cultural Revolution. In particular, the editorial's scoring of "sham Marxists" who pretended to be theoreticians "to bluff and hoodwink innocent people" appears to be a direct slam at long-absent politburo standing committee member Chen Po-ta, the regime's leading theoretician and the former head of the CRG.

The obvious antileftist bias of the anniversary editorial, an intensifying nationwide crackdown on extremists, substantial erosion in the positions of revolutionary activists in many provincial party committees, and the recent re-emergence in important party positions of some prominent officials believed purged early in the Cultural Revolution, all appear to confirm a substantial swing in the balance within the unsettled politburo in favor of a relatively moderate grouping of leaders that includes Premier Chou En-lai and some of the powerful central and regional military figures. Nevertheless, the questionable political status of two politburo members and a major military regional commander associated with the latter grouping, as well as continuing, if tenuous, indications that some elements in Peking are dissatisfied with the "conservative" cast of the emergent party apparatus, suggests that important elements of China's complex leadership equation remain unsolved and that it is still too soon to discount entirely the political influence of the radical ideologues.

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Singapore's Economy Booming Despite British Withdrawal

Singapore's economy continues to grow rapidly despite the almost complete withdrawal of British defense forces, which is scheduled for completion by the end of the year. Although the announcement in 1968 of the UK's withdrawal gave rise to dire predictions for Singapore's future, these proved unfounded as the growth rate continued to increase, reaching 15 percent last year. Fueled by private foreign investment, Singapore has been transformed in the last decade from an entrepot to a leading manufacturing center, and its attractiveness to foreign investors seems to be increasing. Because it produces for export and has become a regional center for marketing and other services, Singapore's economic outlook appears bright.

Although other sectors of the economy, such as tourism and banking, also experienced increases, more than half of the growth last year in Singapore's gross national product was due to increases in fixed capital formation, primarily in manufacturing. The growth in government revenues, in turn, was sufficient to cover the sharp increase in defense spending during the last fiscal year. No major tax increases are planned, although recently released figures show a more than 50-percent increase in total projected defense spending during the current fiscal year.

Singapore's main attractions to foreign investors are its stable government, an efficient and honest civil service, tax and other economic incentives, a well-trained and disciplined labor force, and low wage rates. Unlike many of its Asian competitors, Singapore has managed to keep wage rates from rising faster than productivity. Its success in attracting foreign investment also has allowed the government to be selective in choosing industries employing advanced technology and offering training programs to local employees. As a result, Singapore's labor force is becoming one of the most highly skilled in South-

east Asia; foreign manufacturers of electronic and optical goods, for example, established plants in Singapore last year.

Oil refining, Singapore's largest industry, continues to grow rapidly. Refining capacity, which at almost 400,000 barrels per day is larger than that of any other nation in Asia except for Japan, is scheduled to reach 825,000 barrels per day by the end of 1974. Foreign investment in refining, estimated at \$250 million, equals investment in all other manufacturing activities combined. More than two thirds of the foreign investment in manufacturing already committed for the next four years, moreover, will go to expand oil refining facilities.

Singapore has experienced some economic disappointments recently, however, especially the failure of a major US investor to participate in the aerospace industry, but another US firm and a British-Singapore company are proceeding with plans to convert the former British bases for aerospace purposes. Singapore is using the former bases that have already been turned over to build and repair ships as well as oil rigs.

Despite government statements to encourage the use of Singapore shipyards by Soviet ships, it is unlikely that the USSR will allow its naval ships to be repaired and maintained in areas also servicing British naval vessels. Soviet merchant ships, however, have been using Singapore's yards for minor repairs for some time. Moreover, two Soviet maritime teams that visited Singapore early this year recommended that Soviet merchant ships use Singapore's facilities for planned rather than for strictly emergency repairs. The expected increase in Soviet port calls will reflect the growth of commercial Soviet shipping in the area, due in part to the fact that Soviet ships charge less than conference rates.

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Indonesian Government Wins Election

The government party, Sekber Golkar, scored a sweeping victory in the parliamentary elections on 3 July. Although the final count will not be available for some weeks, government sources now claim that Golkar will surpass its own goal of 50 percent of the popular vote and will win close to 200 of the 360 elected parliamentary seats. These, with the 100 appointed members, will enable the army-controlled Suharto government to continue its priority program of economic improvement.

Trailing Golkar at some distance is the traditionalist Moslem party, Nahdatul Ulama (NU), which may win about 60 seats. Even further behind are the secular National Party (PNI) with perhaps 40 seats and the modernist Indonesian Moslem Party (PMI) with 25. Roughly five seats each may go to three minor parties—the Islamic Unity, Catholic, and Christian (Protestant) parties.

Perhaps the most startling feature of the election returns so far is the stunning reverse suffered by the Indonesian National Party (PNI). Once the largest party in the country, the PNI has traditionally counted on its strength in the bureaucracy and its mass following in densely populated East and Central Java. The bureaucracy, however, was pressed to register with Sekber Golkar, and the PNI suffered a series of difficulties, including a lack of funds, in organizing and implementing its campaign.

Predictably, the government is being charged with vote manipulation, but the losing parties have no effective way to translate their frustra-

tion into action, and no major protest is likely to develop. For the most part, the parties are reacting to the election outcome with what appears to be stunned silence. Although it was obvious that the government's heavy-handed pressure tactics in favor of Golkar influenced many voters, the large vote total for Golkar indicates that the Indonesian people have accepted Suharto's policies and style.

The government has regarded a successful election outcome as the first step toward restructuring the political party system and further de-emphasizing the traditional parties. Political strategists apparently are thinking in terms of developing a single mass party from Golkar, which itself is an army-affiliated coalition of social and occupational groups. This new organization would enlist support from all significant elements in Indonesian society and hopefully would bridge the societal cleavages that are emphasized by the present parties. The pace at which the government moves toward developing such an organization, however, depends on the amount of attention it is willing to divert from its economic program to political action.

The cabinet and presidency are not immediately affected by this election because under the Indonesian constitution the cabinet is responsible to the president and the president is elected by congress. The latter, a 920-seat body that formulates national policy, is indirectly affected inasmuch as parliament makes up half its membership.

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Fits and Starts in the USSR's Japan Policy

The USSR seems to be having considerable difficulty in formulating a consistent policy toward Japan. Increasingly concerned about growing pressures in Tokyo for better relations with Communist China and desirous of counter-ing this trend, Moscow has in recent months used a variety of channels to impress upon the Japanese its desire for better relations. The Japanese, however, attach little urgency to improving ties with Moscow. There is little political capital to be made on this issue in Japan, while advocacy there of better ties with China creates a highly favorable popular response.

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disagreement in Moscow over plans for Siberian development and the role to be granted the Japanese in it, as well as economic considerations such as the terms of financing.

Despite the rapid growth of Soviet-Japanese trade (last year Japan moved ahead of the UK to become the USSR's most important trading partner in the free world), economic relations continue to be hindered by the conflicting priorities both sides attach to them. Moscow is thinking about the long-term integrated development of its eastern areas, whereas the Japanese are interested in the short-term profitability of specific ventures. Despite years of negotiations, the Soviets have been unable or unwilling to agree to terms that would attract Japanese capital and technology in the volume the USSR professes to want.

Only two major joint development projects have been concluded between the two countries. Under the terms of an agreement signed in 1968, the Japanese agreed to supply \$133-million worth of bulldozers and timber-processing equipment in exchange for an equivalent amount of Soviet timber and wood products during 1969-73. The other project involves the Japanese in the development of the Soviet Pacific port of Vrangal under an \$80-million credit. The Japanese see the latter agreement as being more important because it will help improve the economic infrastructure of the eastern USSR. The considerable potential for Soviet-Japanese economic collaboration cannot be realized until Soviet port facilities and the underdeveloped transportation network in this area are improved significantly.

In late June, the Soviets sent an emissary to publicize Moscow's current "peace offensive" and to help improve the USSR's image in Japan. The visit, however, unhappily coincided with the signing of the Okinawa reversion agreement, and the Japanese used the occasion to remind everyone of the USSR's failure to return the "Northern Territories." The USSR lost further ground when it postponed again, this time indefinitely, the annual USSR-Japan economic cooperation meeting on grounds it was not adequately prepared for the negotiations. The cancellation probably reflected

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EUROPE

New Polish Plan Recognizes the Consumer

The Gierek regime took another step toward fulfilling its promises to the Polish consumer at a recent central committee plenum called to amend the 1971-75 economic plan drafted by the Gomulka government last year. Final approval of the new plan will take place during the sixth party congress at the turn of the year.

At the plenum, Premier Jaroszewicz discussed certain of the newly established goals and stressed planned increases in the growth of consumption and real wages. Major provisions of the 1971-75 plan compared with achievements in 1966-70 are as follows:

Growth (in percent- ages except as noted)	1971-75 Plan Directives	1966-70 Actual
National Income	38-39	34
Consumption	38	30
Agricultural Production	18-21	9.2
Per Capita Meat Consumption (in kgs.)	7.6-8.6	2.9
Real Wages	17-18	9
Inventories	37	49

Analysis of these goals indicates the difficulties of making dramatic changes in a short period. Consumption, which has long been slowly declining relative to national income, is scheduled to do

no more than retain its share over the plan period. Even this may not be accomplished because of the tendency to underfulfill the consumption plan. Real wages are scheduled to increase twice as fast as during the previous period, but consumption per capita is planned to increase by only 31 percent compared with the 26 percent growth achieved in 1966-70.

Given the magnitude of current housing shortages, scheduled increases in construction will not provide for a significant improvement over the goals in the original 1971-75 plan. Assuming the Gierek plan is fulfilled, the over-all gain to the average Pole will be only slightly better than that projected under Gomulka.

There are, however, some bright spots in the plan for the consumer. Consumption of meat is planned to increase rapidly, and a quicker growth in social services (not counted in the figures above on consumption) is scheduled. Finally, some reallocation of investment from heavy to light industry and agriculture may make possible greater consumption increases in subsequent plan periods.

Economic results for five months of 1971 demonstrate that the consumer is somewhat better off than previously and that the government has been able to start achieving some of its goals. Especially good results were realized in retail sales and in supplies of some foods, and agricultural production currently is described as favorable "on the whole." Some negative developments include above-plan investments and sporadic instances of inadequate supplies of meat, butter, and some light industrial products.

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Yugoslavia: *New Government Assembling in the Wings*

The Yugoslavs have begun to decentralize political power and institutionalize the choice of a successor to President Tito. A new collective presidency and a Federal Executive Council reduced in size and power are expected to be in place by the end of the month.

The Federal Assembly enacted Tito's sweeping constitutional amendments on 30 June, thereby providing a legal basis for the political reforms. Appointments to the collective presidency, henceforth the supreme state policy-making authority, were completed smoothly before passage of the amendments. All that remains to be done is to create and staff federal and republican administrative offices and to elect, from among the appointees, a vice president, who would serve one year, and would become president if Tito died. The three most likely candidates for the vice-presidency this year are ex-Premier Mitja Ribicic, a Slovene, and two Macedonians, Krste Crvenkovski and Kiro Gligorov.

Dzermal Bijedic, a Bosnian Muslim, has been nominated prime minister of the Federal Executive Council (FEC) and is now selecting a new cabinet. Although the new FEC will be only an administrative body with no policy-making authority, the cabinet appointments could become a contentious issue. The Croats, the most vocal of the nationalistic minorities, have already announced that they want to obtain influential positions in the state secretariats of foreign trade, foreign relations, and internal security. The wavering in Belgrade over the total number of cabinet posts is one indication of the byplay of interrepublic interests over control of the administrative body.

Despite the clash of republic interests, Tito has strengthened his control of the internal situa-

tion, which should ensure a safe passage through the transition period. His sojourn in Croatia over the 4 July weekend, and particularly his face-to-face meeting with Croat party chiefs, was a key move in pursuit of an amicable solution.

COLLECTIVE PRESIDENCY

	1) President - Josip Broz Tito
	2) Vice President - (to be elected from representatives below)
SERBIA	1) Dragoslav Markovic (Serb)
	2) Koca Popovic (Serb)
	3) Dragi Stamenkovic (Serb)
CROATIA	1) Mirko Tripalo (Croat)
	2) Jakov Blazevic (Croat)
	3) Djuro Kladarin (Serb)
SLOVENIA	1) Mitja Ribicic (Slovene)*
	2) Marko Bulc (Slovene)
	3) Sergej Krajger (Slovene)
MACEDONIA	1) Krste Crvenkovski (Macedonian)*
	2) Kiro Gligorov (Macedonian)*
	3) Nikola Minchev (Macedonian)
BOSNIA	1) Hamdija Pozderac (Muslim)
	2) Augustin Papic (Croat)
	3) Rato Duljnjic (Serb)
MONTENEGRO	1) Veljko Micunovic (Montenegrin)
	2) Vidoje Zarkovic (Montenegrin)
	3) Dobroslav Culafic (Montenegrin)
VOJVODINA	1) Ilija Rajacic (Serb)
	2) Matyas Kelemen (Hungarian)
KOSOVO	1) Veli Deva (Albanian)
	2) Iljaz Kurtesi (Albanian)

**front-runners for the vice presidency*

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The basis for resolving the question of the vice-presidency is consistent with the thrust of the whole reform program—to counterbalance republic and nationality interests at the federal level. Central to the success of this approach will be the balancing of Croat and Serb officials. The failure of the Serbs to nominate their strongest leaders to the collective presidency suggests they

are shooting for higher posts, probably in the party. They have succeeded in placing Mijelko Todorovic as head of the National Assembly but they will not be satisfied with this post, if only because until now it has been largely ceremonial. The Croats, because of their recent nationalistic outbursts, are in a poor position to bargain but can rightfully expect some high-level federal posts.

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Downturn in British Economy During First Quarter

Preliminary estimates of the UK's gross domestic product show a drop of almost three percent in the first quarter of 1971. Fixed capital expenditure was off by nine percent, and exports of goods and services were down seven percent. Moreover, despite reduced demand, prices and wages continued upward.

Several recent developments have brightened the otherwise gloomy picture, however. The rate of increase in unemployment has slowed sharply, and the balance of payments was favorable for the first four months of the year. Net earnings on invisibles, such as investments, banking and tourism, are averaging about \$120 million a month, or roughly three times the monthly deficit on commodity trade. London's balance-

of-payments position, however, could deteriorate sharply with a revival of demand because the resulting upturn in imports probably would not be matched by an equivalent increase in exports.

As a result of the latest economic indicators, the government is coming under increasing pressure to adopt programs that will stimulate the economy further. London, however, wants to assess the impact on demand of recent tax cuts and increased pension payments and other benefits before undertaking additional deflationary measures. The government continues to believe that the economy will grow by three percent during fiscal 1972, but it is unlikely that this forecast will be realized.

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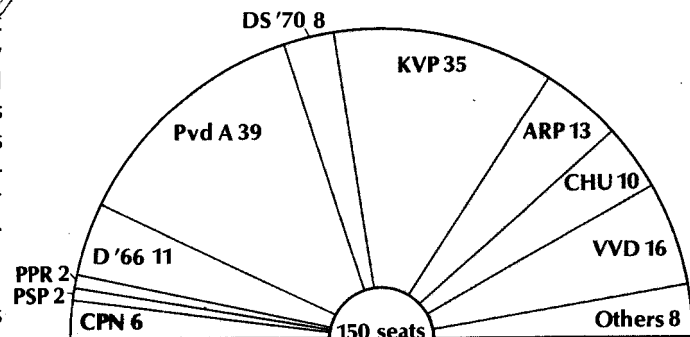
The Netherlands: *New Dutch Government Takes Office*

Lengthy postelection negotiations concluded with the formation on 6 July of an unprecedented five-party coalition government, led by Prime Minister Barend Biesheuvel, a popular Protestant party figure.

Biesheuvel's center-right government replaces that of Petrus de Jong, which lost its parliamentary majority in the national elections of 28 April. Both coalitions are identical with the exception of the addition of a small socialist splinter party—the Democratic Socialists '70 (DS '70). Biesheuvel's working majority will be one seat less than de Jong's, but additional tacit support from ultraconservative parties should assure the government of a comfortable margin in parliament over the vocal opposition bloc of leftist parties. The Labor Party, imbued with New Leftist ideology, dominates the latter political grouping. Unlike his predecessor, Biesheuvel has fashioned a cabinet of accomplished politicians distinguished for their parliamentary experience—the type of experience requisite for maintaining stability in such a complicated coalition arrangement.

On foreign policy matters, broad consensus exists among the coalition partners. A firm commitment to NATO and the preservation of amicable bilateral relations with the US remain keystones. Changes in nuance are to be expected, however. Emphasis will be put on strengthening the European Community's (EC) institutions and on broadening its political dimensions. Biesheuvel, his defense minister, Henri de Koster, and the new foreign minister, Norbert Schmelzer, have been intensely involved in EC affairs and are more likely than previous Dutch leaders to conceive and approach problems from a specifically European orientation.

Nevertheless, the essential basis for the government's formation was a draft program dealing

Barend Biesheuvel**Second Chamber of Dutch Parliament**

- ☐ CPN- Communist Party of the Netherlands
- ☐ PSP- Pacifist Socialist Party
- ☐ Progressive Opposition Bloc
 - PPR- Radical Political Party
 - D '66- Democrats '66
 - Pvd A- Party of Labor
- ☐ New Government Coalition
 - DS '70- Democratic Socialists '70
 - KVP- Catholic People's Party
 - ARP- Anti-Revolutionary Party
 - CHU- Christian Historical Union
 - VVD- Liberals
- ☐ Others

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almost exclusively with domestic affairs. At the insistence of DS '70 and the Liberals, the coalition committed itself to a two-year program of austerity in order to curb inflation and to correct balance-of-payments difficulties. Funding of the social programs that the three confessional parties—particularly the Catholic Party—promised in their electoral campaigns will obviously be delayed and will be contingent upon an auspicious financial situation and economic growth.

The basic agreement among the coalition parties on government financing was left purposefully vague in order to facilitate the coal-

tion's formation, but the government's intention to expand housing, social insurance benefits, and defense spending will make tax increases ultimately unavoidable. The apparent contradiction between a near-standstill tax policy and announced priorities causes apprehension among trade union leaders and the Catholic left wing and certainly provides a source of future discord within the five-party arrangement. The issue may have to be faced soon. With the expiration this month of the national wage curb, an explosion of wage demands is expected. This could upset the government's anti-inflationary plans and foster trouble from the parsimonious-minded Liberals and the DS '70.

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MIDDLE EAST - AFRICA

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Palestinians Meet Again...and Again...

The ninth session of the Palestine National Council, the parliamentary organ of the Palestine Liberation Organization (PLO), began on 7 July in Cairo with an address by President Sadat on Egyptian support for the Palestinian cause. The expanded council now numbers 155 delegates, including 116 who either represent or sympathize with the various fedayeen organizations. It is expected to concentrate on the perennial problem of fedayeen unity, but it is not likely to be any more successful in resolving the issue than its predecessors have been.

Yasir Arafat reported to the council in his role as chairman of the PLO. He claimed that the military strength of the Palestinians had been doubled over the past year by an expansion of the three brigades of the PLO's military arm, the Palestine Liberation Army (PLA). The guerrilla chieftain also renewed his wishful forecast that the resistance movement would become even more powerful with the unification of the various fedayeen organizations. Regarding relations with

Amman, Arafat said that Palestine and Jordan were linked together by many ties and that there must be political unity between the two under the leadership of a Jordanian national front.

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Meanwhile, fighting between fedayeen and Jordanian Government troops broke out again last weekend in the area between Jarash and Ajlun in northern Jordan. The clashes, similar to those that occurred during the latter part of last month, presumably reflect a continuation of the government's policy of gradually reducing fedayeen strongholds, preferably in a sufficiently

low-key manner to avoid unleashing hysterical outcries in the Arab press. In this, the government appears to have been successful; the recent incidents do not seem to have halted the thaw in relations between Jordan and Egypt, or to have harmed recent attempts by a Saudi-Egyptian delegation to mediate between the two sides. [REDACTED]

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Iraq: Baathi Stew Bubbling Again

In recent weeks, the political atmosphere in Baghdad appears to have become somewhat more lively, at least in comparison with the relatively low incidence of coup plot reporting that had obtained for some months.

The latest incident occurred early this week when Iraqi authorities rolled up an allegedly British-sponsored coup plot. No details are available beyond the fact that three British Embassy staff officers were expelled for their supposed espionage activities, but the Baathis are forever suspicious that the UK is engaged in antiregime actions.

Baghdad also may be in for some new troubles with the rebellious Kurdish minority in the north. The government has still not implemented some of the political aspects of the accord, signed in March 1970, that were aimed at giving the Kurds some degree of political autonomy. This slow pace [REDACTED] is causing increasing frustration and bitterness among the Kurds and could eventually result in new fighting. Kurdish leader Mulla Mustapha Barzani remains suspicious of government intentions and may again turn to the Iranians for aid in order to reopen the struggle.

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If Baghdad's recent diplomatic moves are indicative, the regime may be feeling uneasy in its political isolation, even from its Arab brethren. Last weekend, President Bakr dispatched personal emissaries with messages for several Arab leaders, explaining Baghdad's stand on Middle East issues. The exact content of the messages has not been made public, but since the advent of the Asad regime in Syria, the Iraqis have been left virtually alone in their radical approach to Middle East problems. [REDACTED]

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Uganda: *Army Problems Trouble Amin Government*

Since the military government seized power last January, army troops—largely from the West Nile District, President Amin's home area—have been taking advantage of their new-found dominance to settle long-standing grievances with northern Nilotic civilians and army troops, the source of much of ex-President Obote's support. Many Nilotes, particularly Acholi and Lango tribesmen, have been killed, beaten, or indiscriminately arrested or detained. The government has announced that 600 enlisted men and 75 officers—out of an army of about 10,000—have been killed in recent months. Although the deaths have been officially attributed to border encounters with pro-Obote guerrillas infiltrating from Tanzania, this explanation is discounted by the US Embassy in Kampala.

General Amin has thus far made little effort to impose discipline on the army or to restrain his

fellow West Nilers; some have even been promoted to important command posts from the senior enlisted ranks. As a result, the army command structure appears to be deteriorating, with some local commanders exercising complete authority in their areas. Clashes between troops at army installations have also been reported recently.

The Ugandan Army, which served as an important prop for the Obote administration, has long been known as a poorly disciplined force, troubled by tribal problems and given to brutal excesses. Now that it is the mainstay of the government, it is proving even more difficult to restrain. If the present leadership is to remain in power, however, it will have to gain some kind of control over the unruly army, a feat that proved difficult even for the crafty Obote.

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CONGO(B)–USSR–CHINA: Recently available information indicates that both Moscow and Peking signed military agreements with the Brazzaville government last year. In November, China agreed to provide about \$2-million worth of military assistance including T-62 light tanks, rifles, machine guns, and other ground forces equipment; all but the tanks reportedly were delivered by May 1971. The agreement is the largest of the three Brazzaville has signed with Peking, and brings China's total military aid to approximately \$3 million.

In June 1970 Moscow agreed to provide an estimated \$9.2-million worth of military equipment including two of the four AN-24 medium transports delivered last February, as well as smaller transports, spare parts, and aviation support equipment. The agreement also calls for the supply this year of several light amphibious tanks, armored personnel carriers, and other ground forces equipment. Total Soviet military aid to the Congo now amounts to over \$12 million.

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Iran Prepares to Fill a Military Vacuum in the Persian Gulf

A major expansion of the Iranian armed forces is continuing in anticipation of the British withdrawal from the Persian Gulf later this year. The Shah views the British departure as a development that will afford Iran the opportunity to assume a pre-eminent role in the security of the Gulf area and he considers expansion of his military forces essential to this new role.

The air force recently received the first four of 32 late model Phantom fighter aircraft and further deliveries are scheduled at the rate of four per month. Iran already has 31 earlier model Phantoms and 109 F-5 fighters. By the end of 1975, the Shah plans to have about 135 Phantoms but anticipates no appreciable increase in the number of F-5s. The air force will also acquire additional reconnaissance and transport aircraft.

The Iranians have been building three new airfields on the Persian Gulf at Bandar Abbas, Bushire, and Jask. When the last one is completed later this year, Iran will be capable of covering the entire Persian and Oman Gulf areas. Bandar Abbas also is the site of the new Iranian naval base on the Strait of Hormuz, the entrance to the Persian Gulf. The combination of a major new airfield and an important naval base there will strengthen Iran's ability to control the mouth of a vital sea lane.

To enhance the mobility and the military cargo and troop-carrying capabilities of all three armed services, Iran has ordered a wide variety of helicopters from Agusta of Italy—all of which are manufactured under license from US companies. The first group of an order of 16 Chinook medium transport helicopters already has been delivered to the air force and by the end of 1972 Iran is to receive 55 light transport and 145

utility helicopters. The only helicopters now in the Iranian inventory are 25 light transport types supplied by the US. Some of the new helicopters that are destined for the Iranian Navy reportedly will be stationed on the Persian Gulf to supplement the patrol activities of the navy's newly acquired hovercraft.

The navy has received from the UK eight 10-ton hovercraft capable of carrying 30 to 35 combat-equipped troops at a cruising speed of 50 knots. It also will receive four 50-ton hovercraft, which can transport 120 to 140 troops at 60 knots. The Shah views these craft as vital to a fast-moving, flexible, and effective armed force in the Gulf and has had a special hovercraft base built on Khark Island in the northern Gulf. The navy also is scheduled to receive this year from the UK at least two of four new 1,200-ton frigates armed with Sea Cat SAMs.

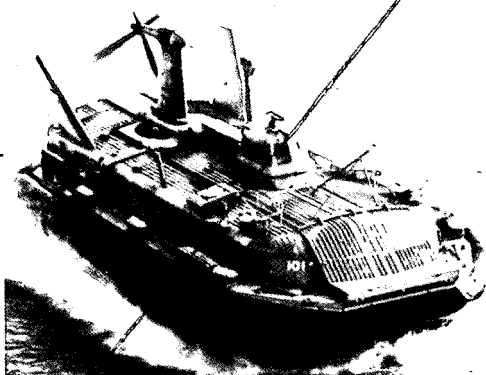
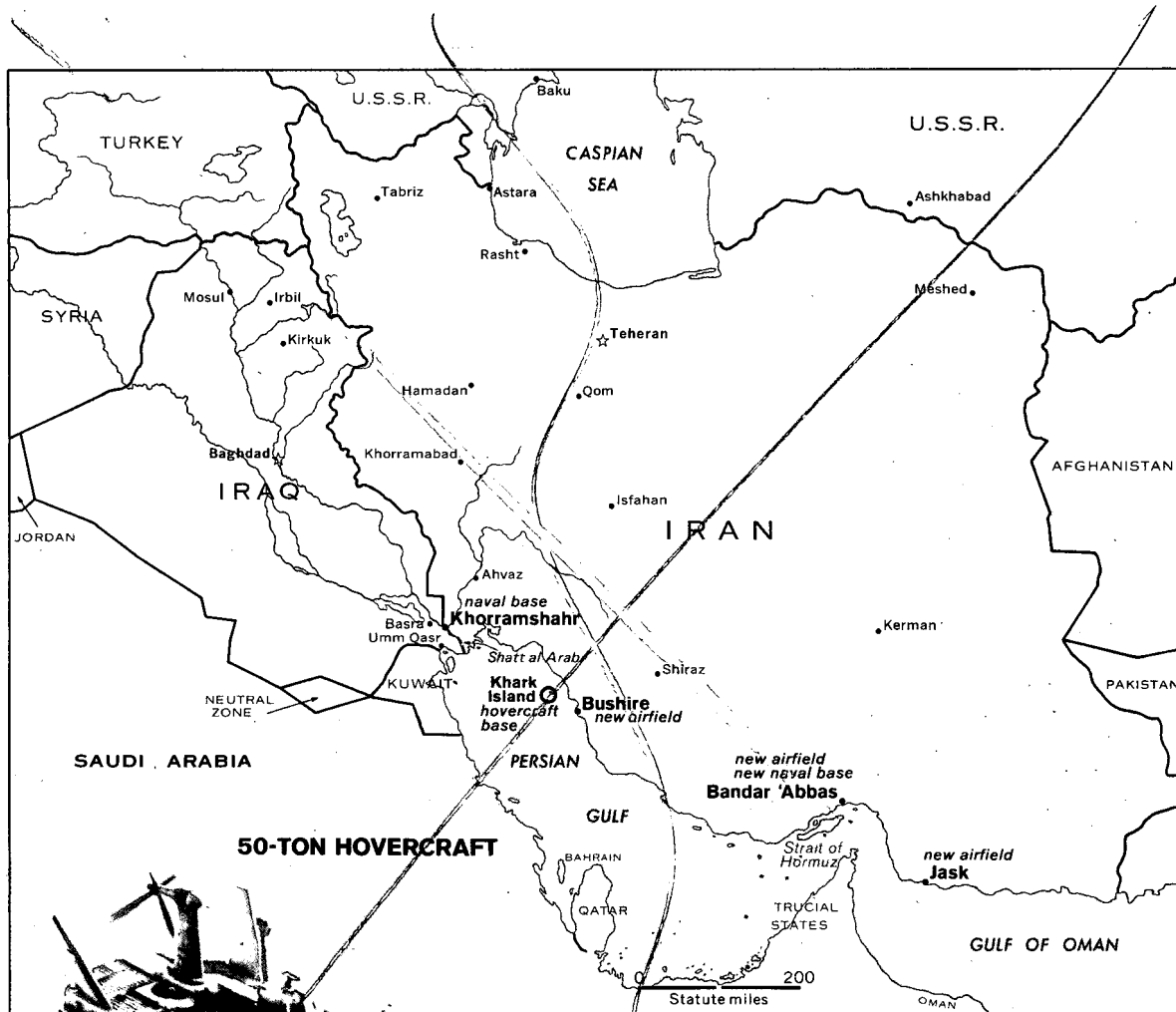
The Shah has not neglected the army; he recently purchased about 300 Chieftain tanks from the UK to bolster the current inventory of about 850 US-manufactured tanks. Delivery of 36 Chieftains will be made this year and the entire order is to be completed early in 1975.

Among the littoral states of the Gulf, Iran is in the best position to establish military primacy—it has the largest, best equipped, and best trained army, navy, and air force. Only Iraq is capable of posing any serious threat to Iran. Many Iraqi troops, some formerly stationed in Jordan, are being redeployed to eastern and southern parts of Iraq, where military skirmishes between Baghdad and Tehran have been normal fare for the past several years. Despite the potential threat from Iraq, however, Iran could defeat any of the littoral states, individually or in combination.

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Iran Expanding Military Facilities
in the Persian Gulf Area

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South Africa: *Political Liberals Hope to Widen Constituency*

The Progressive Party—a small but vocal liberal voice in South Africa—has launched a vigorous campaign to attract young Afrikaners dissatisfied with the ruling National Party. In pursuit of this goal, the party has changed its leadership and some of its policies, and is trying hard to change its image as well.

Since the party's formation in 1960, it has concentrated on recruiting members from among the more liberal elements of the English-speaking community in urban areas. Party officials now sense a changing political climate in South Africa, with the two major parties no longer able to command the allegiances of the past, and the young, urban Afrikaner as an increasingly possible "swing" group in white politics.

The Progressives' "new look" came out of their party congress in February 1971. The most significant change was the election of a dynamic and hard-working political activist, Colin Eglin, as the new chairman of the party. The youthful Eglin, the complete antithesis of his aging predecessor, maintains extensive contacts in intellectual circles and youth groups.

At the congress, the party membership also approved a major shift in policy—from outright opposition to qualified approval of the government's plan for developing African tribal homelands (bantustans). The Progressives said in effect that if "development" of the African within an independent bantustan really means "improve-

ment," then the government should get on with it. The rest of the platform remains essentially unchanged. The party advocates a nonracial, "qualified" franchise based on certain minimal standards of education or earnings. It seeks to promote unity between Whites and Coloreds (people of mixed race) as well as between Afrikaners and English speaking citizens, and to eliminate the more offensive aspects of apartheid.

In their attempt to attract new adherents, the Progressives have held meetings and organized new chapters in several Afrikaner strongholds, and have appointed a number of young Afrikaners as full-time party organizers. Moreover, the party may soon offer an important position to the recently resigned public relations officer of the National Party, who left because his liberal ideas clashed with the more conservative views of the party leadership.

Despite these moves, the Progressives can still be expected to proceed cautiously because important elements within the party remain skeptical about the new image. Moreover, although the new enthusiasm and dynamism will attract added membership to the ranks, the party drew only 50,000 votes in the last election and placed only one member in Parliament, so that it has a long way to go before it becomes a significant political force. Of more immediate importance, however, is the possibility that any successes may prove catalytic, speeding the introduction of policy changes in the two major political parties.

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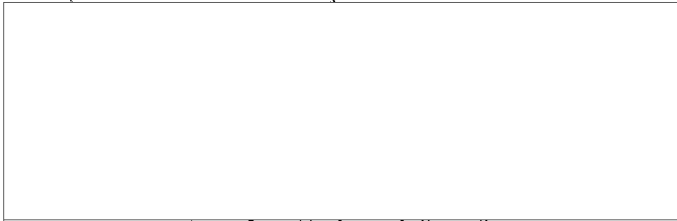
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Developments in Chile

Domestic Politics



The MIR's persistent resort to violence is increasingly counterproductive in the view of Allende and many of his backers, particularly the Communist Party (PCCh). Even the hard-line PS leadership ostensibly has abandoned its advocacy of armed violence. Charges by opposition forces that Allende favored armed groups were having a telling effect among the many Chileans shocked by several recent murders committed by extremists. In this atmosphere, the GAP was a political liability, so its members reportedly are being assigned to government agencies, where they may retain security functions but will provide a less visible target for criticism.

Economic Affairs

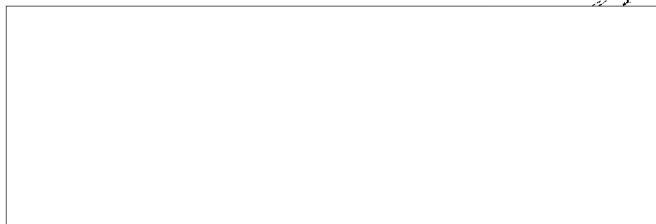
Allende's Popular Unity (UP) coalition is touting the assured congressional approval of copper nationalization legislation on 11 July as Chile's "second independence" and is preparing for extensive celebrations. The UP's massive publicity build-up on the total take-over of the large copper mines features incessant charges that US developers, who are still partial owners and managers of the mines, have robbed Chile and are responsible for most of the country's problems.

In a speech on 3 July, the President said that reports from French and Chilean technicians show that the mines are being received from the US managers "in very bad condition." He added that a study he requested from visiting Soviet technicians had reached almost the same conclusions.

Foreign Affairs 25X1

The Communist-led Confederation of Trade Unions has been given charge of distributing many of the disaster relief supplies flown in promptly by the USSR following a particularly severe winter storm in late June. The new Communist Chinese ambassador in Santiago has turned over more than \$2 million cash to aid the storm victims, and the Allende administration is boasting of the receipt of relief from governments across the political spectrum. ~~The US offer of medicine and other supplies was not accepted for several days, apparently because of opposition that was eventually overruled by Allende.~~

In keeping with the determination to have the best possible relations with neighboring governments, Chile is discussing solutions to bilateral problems with Argentina, and the presidents of the two countries plan to meet later this month near the border. Cuban Ambassador Garcia announced on 5 July that Fidel Castro would visit Chile "this year, presumably within 90 days." It still seems likely, however, that Allende will try to shore up his image of respectability by visiting Peru, Ecuador, and Colombia before receiving the Cuban leader.



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Dominican Republic: *A Plotter Is Exiled*

President Balaguer has been both criticized and commended for his handling of the case of former General Elias Wessin y Wessin, who arrived in Spain on 5 July after having been sentenced to exile for conspiring against the government.

Several political figures, including Balaguer's first-term vice-president, Francisco Augusto Lora, and former president Juan Bosch, have publicly objected to the highhanded way in which President Balaguer dealt with Wessin's self-proclaimed conspiracy against the government. Bosch termed the President's televised accusation against Wessin on 30 June a "grievous spectacle." He also expressed alarm at the absence of protest from any member of the judicial branch of the government

against the President's alleged usurpation of the judiciary's responsibility. The general reaction as reflected in the press, however, has dwelt almost entirely on the theme that coups cannot solve the country's problems and that constitutional government, however imperfect, is infinitely preferable to a government brought to power by violence.

Just what Wessin was trying to do and how far he had progressed are still unclear, although it seems generally accepted that a plot was afoot. The press, however, has shown little curiosity about details, possibly because almost no one but General Wessin himself believed that he could seriously threaten the government.

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ANDEAN GROUP: A common code governing the treatment of foreign investment went into effect on 1 July in Bolivia, Chile, Colombia, Ecuador, and Peru. Although the code provides the basis for eventual uniform treatment of foreign investment throughout the subregion, it is unlikely that this goal will be realized in the near future. The code contains numerous inconsistencies, ambiguities, and discretionary provisions, most of which remain to be clarified. Five articles

were modified just before the code became effective, and further adjustments could take place. The failure to establish clear-cut "rules of the game" by delineating mutual responsibilities of member states and foreign investors is considered a serious shortcoming from the investor's point of view. The code's actual impact on foreign investment probably will not be evident until a record of implementation and precedent is established.

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